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FISCAL POLICIES PROCEDURES

INTERNAL SERVICE FUNDS (BILLED CENTRAL SERVICES), AGENCY BILLINGS

ADMINISTRATIVE PROCEDURES

1. The State Controller shall provide a list of applicable internal service funds (ISF) to the State Treasurer's Office and to the Division of Financial Management (DFM). The State Controller shall also notify each applicable State Agency its ISF qualifies under this policy.

Each state agency shall be responsible for notifying the State Controller and the Division of Financial Management (DFM) when a new fund has been authorized to be established. The State Controller will then determine the proper classification for the new fund, i.e., whether or not the fund is properly classified as an ISF.

The DFM shall use the State Controller's Comprehensive Annual Financial Report (CAFR) to identify ISFs for its annual Statewide Cost Allocation Plan (SWCAP) filed with the U.S. Department of Health and Human Services (DHHS).

2. Each defined ISF will submit its billing rate development methodology for each Billed Central Service to the DFM. The DFM will review the billing rate methodology for consistency with this policy and with applicable Federal guidelines.
3. Rates shall be reviewed at least annually (preferably more frequently) to determine if a rate adjustment may be needed in the future in order to address any developing significant over/under recoveries. Prior to adjusting established rates, or determining new rates, reconciliation will be performed comparing actual costs of providing the service to the total costs recovered through the existing billing rate. Any over/under recovery shall be taken into consideration in developing the new billing rates.
4. The agency will notify DFM, in time for budgetary consideration, when any changes are anticipated to be made. The ISF should notify users, as soon as practical, of potential rate adjustments.

DETAILED PROCEDURES

Each agency operating an ISF must develop detailed written procedures for the fund to be in compliance with OMB Circular A-87. In developing these procedures, the following need to be addressed:

1. Identify each billed service to be provided by the ISF and identify the user(s) for each service.
2. Determine the total cost of providing each service. Costs to be included are both Direct and Agency Indirect costs. The accounting system used should account for costs in a manner facilitating accurate determination of total costs. If possible, a twelve-month period should be used to determine the total costs for developing the billing rate. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of net assets of up to 60 days cash expenses for normal operating purposes is considered reasonable.
3. Agency Indirect Costs, whether billed or allocated, should be included in the total cost accumulation.
4. Statewide Indirect Costs allocated to an agency in the SWCAP should not be included in the rate base for determining billing rates. The ISF share of the agency allocation will be calculated by the DFM during preparation of Section II of the SWCAP. The DFM will offset calculated costs against unallowable costs and fund balances in excess of allowable working capital.
5. If included, federally unallowable costs must be separately identified in the rate base.
6. Determine the activity base to be used for billing costs. The base should represent the typical unit of usage for the service and should ensure users are billed according to their usage.
7. Costs should be billed on a basis consistent with the service being provided. Usually this will be a monthly billing. Advance billings may be used provided the subsequent billing is adjusted to reflect any over/under usage.